



Get your business fundamentals fit to drive economic value

In an increasingly complex environment, every private business across Australia can benefit from establishing and refining four core fundamentals. In this article, we pinpoint these and explain how to approach them.

Based on our experience working alongside leaders in private businesses across Australia, four core fundamentals consistently enhance value while keeping day-to-day business operations in peak condition.

Whether your business is just starting out, or growing, or preparing for sale – these fundamentals can give you the confidence to control, adapt and thrive. We'll look at each of these in turn:

- 1 Strategy and business planning
- 2 Financial management and process improvement
- 3 Governance structures
- 4 Working capital



Strategy and business planning

In every private business we've ever encountered, hardworking CFOs and senior leaders are pulled in multiple directions. Understandably, many struggle to invest time in strategy and planning. But without this, a business cannot reap the full benefit of all their hard work.

Business strategy is a set of choices regarding what the business can achieve, what's important for the business to do next. Understand the financial implications of those choices, and, importantly, being clear on what you're *not* going to do are key to success.

Being able to articulate business strategy is vital. It gives funders, acquirers, and investors the confidence that management and business owners know what's driving the business. And it gives private businesses an element of control, especially in an uncertain environment.

Commonly, private businesses struggle with strategy during growth spurts, or when growth plateaus. Both these stages offer huge opportunities, providing that CFOs and senior management make time to reset and think about where they're headed next. Sometimes, they may have ideas for their next strategy but they lack the process to define and articulate it. A good place to start is to ask questions such as:

1. What does our strategy look like for each of our divisions?
2. Are we clear on our obligations to deliver the strategy?
3. How do/might we measure each division's contribution to strategy?



Financial management and business/ process improvement



For private businesses and their finance teams, a common challenge is productivity. In particular: knowing which indicators will provide meaningful insights and enhance growth. There's an array of data available, and finding the *right* data gives a business the agility to make strategic decisions in a timely fashion.

Besides internal data, finance teams also need to consider what's happening in the market at a macro level. And there's an increased need for KPIs to switch from being just lag indicators to including lead indicators.

Every business has a different set of drivers and KPIs which evolve over time. To identify relevant KPIs, measure them, capture meaningful data, and allow leaders to make choices on where they need to pivot – the fundamentals must be right in the finance function first.

This requires a focus on process, technology, and people:



Process: Process mapping and simplification helps the finance team understand what it currently does, and where activity is (and isn't) contributing to providing relevant and meaningful insights linked to strategy and growth.



Technology: To maximise productivity, you need to understand the capabilities of your technology platforms and leverage these capabilities. You may need to embed new technologies, through digital automation you can simplify your operations. We're quickly moving beyond things like Robotics Process Automation (RPA) in isolation, to starting to experiment with Artificial Intelligence (AI) to optimise core business activities and scale the automation of manual tasks.



People: It's essential to assess the skills and capabilities of your team in order to upskill and digitally enable them. If you're struggling to secure talent, it's important to know what high-calibre people expect from employers. For example, we consistently find that finance professionals are seeking digital upskilling and strategic involvement from their next role. Given the reliance on technology, you need people with the right data science and AI skills. That allows you to harness AI and provide insights in a quick and meaningful way.

Initial questions for CFOs and senior management to ask include:

1. Have we completed a process map to ensure our business activities are contributing to measurement, tracking and ultimately achievement of objectives and strategy?
2. How can technology speed up that process? Do we have the best systems and tools in place?
3. Do we have the necessary skills and capabilities in our finance team? If not, what can be learned through upskilling and reskilling, and what capabilities do we need to hire/import from outside?



Governance structures



Private businesses have finite resources and dedicating time to governance can feel like a low priority and so it's not uncommon for growing companies to not yet have any formalised governance. Yet good governance can have a dramatic impact on business value, risk management and regulatory compliance.

Businesses leading on environmental, social and governance matters often enjoy greater shareholder returns and can be more active and agile responding to customers, lenders and investors. Furthermore, regulators now have higher expectations around governance too. Whilst it is not immediate for many owners, good governance enhances value in the exit phase because the buyer has greater confidence that robust structures are in place.

There's 'no one size fits all' for governance but there are some **good governance** principles that can be commonly applied, covering areas like mission, culture, maintenance of contracts and legal records, independent judgment, risk tolerance, due diligence, executive appointments, stakeholder engagement and board evaluation.

When considering their governance structures, CFOs and senior management might ask:

1. Have we considered key principles of good governance and how they apply to our business?
2. Have we self-assessed our governance structure?
3. What governance do we have documented?

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Working capital



Working capital is another area that growing businesses sometimes overlook. Yet the ability to measure and optimise working capital can deliver genuine dollar value and tangible outcomes.

The biggest pain point for CFOs and business leaders in working capital is optimisation. We often suggest that the most cost-effective, low risk way of generating value to your business is to capitalise on the easy wins, such as optimising your collection and payment cycles.

Being able to forecast shortfalls and cash flow is where working capital management really comes into its own. It can ensure you avoid having excess cash sitting idle on your balance sheet, and it can help ensure you have reserves in place if you ever run short.

To start improving working capital management, CFOs can ask themselves:

1. Do we have a good insight into our cash lifecycle?
2. Do our business processes adequately measure, support and manage our working capital KPIs?
3. Do we experience shortfalls or excess working capital? If so, how do we manage these?



Wherever you are on your business journey, learn more about growing your company with our [Private Business Life Cycle hub](#).



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